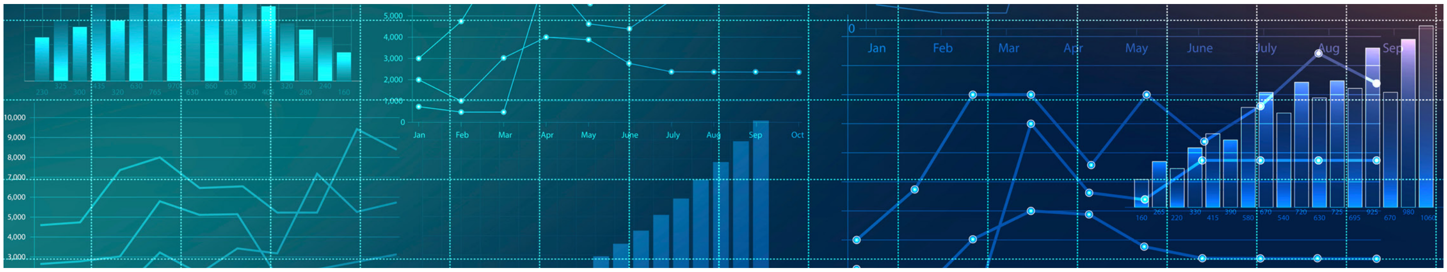

Property/Casualty Insurance Results: 2019

By Neil Spector, President, ISO, and Robert Gordon, Senior Vice President, Policy, Research and International, APCIA

Authors' Note

Property/casualty insurers enjoyed strong results in 2019 as net income increased, net underwriting losses turned into gains, and policyholders' surplus reached a record high. This report provides specific details about insurers' performance in 2019.

But this year is shaping up to be very different. The COVID-19 pandemic has disrupted the entire U.S. economy and the lives of Americans, and that will have a major impact on the insurance industry. Right now, millions of people are staying at home and driving much less. Many businesses have had to close or significantly curtail their activities. High unemployment rates and declines in consumption and business activity may persist through 2020, and no one knows yet what the economic impact will be on exposures and demand for insurance in the months and years to come. The stock market plunge in first-quarter 2020 could potentially generate significant capital losses for insurers, reverting the recent gains in the industry's surplus.

For more information about the pandemic, please be sure to refer to our COVID-19 resource page for property/casualty insurers at www.verisk.com/insurance/covid-19/. The page is updated regularly with insights from Verisk staff, information on regulatory actions, and news about ISO products in development to help insurers during the crisis.

Private U.S. property/casualty insurers' net income after taxes rose to $61.4 billion in 2019 from $59.6 billion in 2018. Insurers' overall profitability as measured by their rate of return on average policyholders' surplus declined to 7.7% from 8.0% a year earlier, according to ISO, a Verisk (Nasdaq:VRSK) business, and the American Property Casualty Insurance Association (APCIA).[1]

Insurers' combined ratio[2] improved to 98.9% for 2019 from 99.2% for 2018, and their $3.7 billion of net underwriting gains[3] in 2019 compare to $0.2 billion of net underwriting losses a year earlier. Net written premium growth slowed to 3.6% for 2019 from 10.8% for 2018.

Insurers' net investment income fell to $54.4 billion in 2019 from $55.3 billion a year earlier, while insurers' realized capital gains inched to $10.4 billion from $10.3 billion, resulting in $64.9 billion in net investment gains[4] for 2019, a decline from $65.6 billion for 2018.

The industry's surplus[5] increased to an all-time-high $847.8 billion as of December 31, 2019, a $105.7 billion increase from $742.1 billion a year earlier and a $35.6 billion increase from the $812.2 billion as of September 30, 2019.

Insurers' rate of return on average surplus fell to 7.7% for 2019 from 8.0% for 2018, as growth in insurers' surplus exceeded the increase in net income after taxes. Still, the 7.7% for 2019 is 0.1 percentage points above the 7.6% average for the 30 preceding years from 1989 to 2018.

Underwriting Results

In 2019, earned premiums grew 4.8% to $621.9 billion, while losses and loss adjustment expenses (LLAE) rose 4.3% to $442.1 billion, other underwriting expenses grew 3.2% to $172.3 billion, and policyholders' dividends increased to $3.8 billion from $3.0 billion a year earlier. As a result, the industry reported a $3.7 billion net underwriting gain, a significant improvement from the $0.2 billion net underwriting loss for 2018.

1. This study defines the U.S. property/casualty insurance industry as all private property/casualty insurers domiciled in the United States, including excess and surplus insurers and domestic insurers owned by foreign parents but excluding state funds for workers' compensation and other residual market carriers. The figures are consolidated estimates based on reports accounting for at least 96% of all business written by U.S. property/casualty insurers. All figures are net of reinsurance unless otherwise noted and occasionally may not balance due to rounding.
2. Combined ratio, defined as the sum of loss ratio, expense ratio, and dividend ratio, is a key measure of losses and other underwriting expenses per dollar of premium. The loss ratio is the ratio of losses and loss adjustment expenses (LLAE) to earned premiums; the expense ratio is the ratio of other underwriting expenses to written premiums; and the dividend ratio is the ratio of policyholders' dividends to earned premiums.
3. Underwriting gains (or losses) equal earned premiums minus LLAE, other underwriting expenses, and dividends to policyholders.
4. Net investment gains equal the sum of net investment income and realized capital gains (or losses) on investments.
5. Policyholders' surplus is insurers' net worth measured according to Statutory Accounting Principles.

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American Property Casualty Insurance Association
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Net written premiums increased $21.8 billion to $634.0 billion in 2019 from $612.2 billion in 2018. Net written premium growth slowed to 3.6% from 10.8% for 2018. Net earned premium growth was 4.8% in 2019, slowing from 9.8% for 2018.

The visible decline in premium growth for 2019 is mainly due to the unusually high comparison base. Following changes to the U.S. tax code effective on January 1, 2018, many insurers restructured reinsurance programs, which had the effect of significantly reducing the portion of premiums ceded to non-U.S. affiliates. As a result, 2018 written premium growth was a compound effect of several developments, with the main drivers being organic growth in underlying direct written premiums, multiple insurers ceding less premiums to their non-U.S. affiliates in 2018, and in some cases, one-time increases in written premiums associated with the returns of previously ceded unearned premium reserves. Notably, the 2018 increases in earned premiums were less pronounced than the increases in written premiums, mostly due to the absence of one-time increases and partially due to the time it takes for increased written premiums to be earned.

With 2018 values unusually high, it's worth comparing 2019 premiums with the values for 2017. Average annual growth over the two-year period from 2017 to 2019 was 7.1% for net written premiums and 7.3% for net earned premiums, which significantly exceeds the rates observed in preceding years. During the 14 years from 2004 until 2017, the net written premium growth rate averaged 2.3% and never exceeded 5.0%.

To assess the underlying direct premium growth, ISO compiled premiums for a large cohort of insurers whose annual data was available for 2017, 2018, and 2019, which represents more than 95% of total net written premium for the industry. Aggregated net written premium for these insurers grew 10.9% in 2018 and then grew only 3.5% in 2019, while their direct written premium grew approximately 5.6% in 2018 and then grew 5.2% in 2019. The changes in direct written premiums are consistent with continued growth in the economy and relative stability in insurance markets through year-end 2019.

The 4.3% LLAE increase in 2019 compares with the unusually low 3.3% increase in 2018, both significantly affected by catastrophes. Private U.S. insurers' LLAE from catastrophes[6] declined $14.9 billion to $28.4 billion in 2019 from $43.3 billion a year earlier. LLAE for losses other than catastrophes rose $33.1 billion, or 8.7%, to $413.7 billion in 2019 from $380.6 billion in 2018.

Insurers attained underwriting gains in 2019, as catastrophe losses declined from the extreme levels of 2018 and 2017.

Private U.S. insurers' LLAE includes both their domestic and foreign catastrophe losses. However, U.S. insurers' $28.4 billion in LLAE from catastrophes in 2019 is primarily attributable to catastrophes that struck the United States. Though estimating U.S. insurers' LLAE from catastrophes elsewhere around the globe is difficult, the available information suggests that U.S. insurers' LLAE arising from such events was not large compared with domestic catastrophe losses. The most notable foreign catastrophes generating losses for some U.S. insurers struck Japan. These include typhoons Hagibis, which made landfall in October 2019; Faxai, in September 2019; and Jebi, in August 2018.

Reflecting the differences between premium growth and the growth in LLAE and other costs of providing insurance, the combined ratio improved to 98.9% in 2019 from 99.2% in 2018.

Underwriting results benefited from $7.2 billion in favorable development of LLAE reserves in 2019, based on new information and updated estimates for the ultimate cost of claims from prior accident years. In recent years, the industry has consistently reported favorable reserve development. In addition to the better-than-expected claims experience on long- and medium-tail lines, significant favorable reserve development is also reported on short-tail lines due to salvage and subrogation not reflected in the original LLAE estimates. The $7.2 billion of favorable reserve development in 2019 is significantly below the $13.0 billion of favorable development in 2018. Favorable development reduced the combined ratio by 1.2 percentage points in 2019 and by 2.2 percentage points in 2018.

Excluding development of LLAE reserves, net LLAE grew $12.3 billion, or 2.8%, to $449.3 billion in 2019 from $436.9 billion in 2018. Excluding development of LLAE reserves, net noncatastrophe LLAE grew $26.1 billion, or 6.6%, to $421.7 billion in 2019 from $395.6 billion a year earlier. The decrease in LLAE attributable to catastrophes subtracted 2.7 percentage points from the change in the loss ratio, while the combined impact of catastrophes and changes in reserve development subtracted 1.5 percentage points from the change in the loss ratio in 2019.

The $3.7 billion net gain on underwriting in 2019 was 0.6% of the $621.9 billion in net premiums earned during the period. The $0.2 billion net loss on underwriting in 2018 was less than 0.1% of the $593.6 billion in net premiums earned during that period.

While the overall net written premium growth rate in 2019 slowed to 3.6% from 10.8% a year earlier and the combined ratio improved to 98.9% from 99.2%, the dynamics varied across industry segments.

Net written premium growth for insurers writing mostly personal lines slowed to 4.4% in 2019 from 6.6% a year earlier. Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines slowed to 3.1% in 2019 from 19.5% in 2018. The changes in reinsurance utilization in 2018 were concentrated in this segment. Premium growth for insurers writing more balanced books of business also slowed from 6.1% in 2018 to 2.5% in 2019.

Estimated direct premium growth was approximately 4.5% for insurers writing predominantly personal lines, approximately 4.4% for insurers with balanced books of

6. LLAE from catastrophes also includes revisions to LLAE from catastrophes that occurred during prior periods but excludes LLAE covered by the National Flood Insurance Program, residual market insurers, and foreign insurers and reinsurers.

business, and approximately 6.7% for insurers writing mostly commercial lines, excluding mortgage and financial guaranty insurers. Direct premium growth was estimated using a consistent set of insurers representing more than 95% of commercial insurers and close to 100% of remaining segments.

Excluding mortgage and financial guaranty insurers, commercial lines insurers' combined ratio improved 1.7 percentage points to 99.5% in 2019. Personal lines insurers' combined ratio deteriorated 0.7 percentage points to 97.9%, and balanced insurers' combined ratio improved 0.3 percentage points to 101.4% in 2019 from 101.7% in 2018.

Investment Results

Insurers' net investment income—primarily dividends from stocks and interest on bonds—decreased 1.6% to $54.4 billion in 2019 from $55.3 billion in 2018. Insurers' realized capital gains on investments inched up to $10.4 billion in 2019 from $10.3 billion a year earlier. Combining net investment income and realized capital gains, overall net investment gains declined by $0.8 billion, or 1.2%, to $64.9 billion in 2019 from $65.6 billion a year earlier.

The decline in net investment income in 2019 is largely due to an unusually high comparison base. Net investment income growth in 2018 was significantly affected by the timing and magnitude of dividends from insurers' subsidiaries outside the U.S. property/casualty universe. Such dividends can include the earnings accumulated within subsidiaries over a long time. Excluding one insurer that posted elevated investment income in 2018 due to investment income from such "external" subsidiaries, net investment income grew 2.2% in 2019.

In 2019, insurers' average cash and invested assets grew 5.4%. This increase in cash and invested assets combined with the decline in net investment income pushed the 2019 yield on insurers' investments back to the 3.1% level of 2016 and 2017 from 3.4% recorded for 2018. The investment yield of 3.1% is low compared to historic averages. From 1960 to 2018, insurers' annual investment yield averaged 5.0% but ranged from as low as 2.8% in 1961 to as high as 8.2% in 1984 and 1985. In recent years, investment yields have trended downward, and yields have not exceeded 4.0% since 4.2% for 2008. Insurers' annual investment yield steadily declined from 4.6% for 2005 to 3.2% for both 2014 and 2015 and to 3.1% in 2016, 2017, and 2019. The one-time increase to 3.4% in 2018 was mostly due to one-time money transfers from subsidiaries outside the U.S. property/casualty universe, rather than to sustainable increases in investment profitability. As a consequence of the downward trend, the 2019 yield was 0.3 percentage points below the average annual yield for the preceding ten years from 2009 to 2018.

Combining the $10.4 billion in realized capital gains in 2019 with the all-time-high $86.9 billion in unrealized capital gains[7] during the same period, insurers posted an all-time-high $97.4 billion in overall capital gains for 2019, a $128.0 billion improvement from 2018. Unrealized capital gains in 2019 are the largest ever, dwarfing the second-largest $58.8 billion in unrealized capital gains in 2017. Over the past 30 years, insurers' total capital gains have averaged $3.6 billion per quarter, but the quarterly total capital gains have ranged from as high as $45.7 billion in fourth-quarter 2017 to as low as negative $44.6 billion in fourth-quarter 2018.

Pretax Operating Income

Pretax operating income[8] rose $2.9 billion to $59.5 billion for 2019 from $56.6 billion for 2018. The rise in operating income was the combined result of the $3.8 billion improvement in net underwriting results and the $0.9 billion decrease in net investment income. Miscellaneous other income was essentially unchanged.

Net Income after Taxes

Combining operating income, realized capital gains (losses), and federal and foreign income taxes, the insurance industry's net income after taxes rose $1.8 billion to $61.4 billion for 2019 from $59.6 billion for 2018. The net income after taxes for 2019 is well above the $46.6 billion average annual income for the last ten years and is the highest annual income since $63.4 billion in 2013.

Policyholders' Surplus

Policyholders' surplus increased $105.7 billion to $847.8 billion as of December 31, 2019, from $742.1 billion as of December 31, 2018. Additions to surplus in 2019 included $61.4 billion in net income after taxes, $86.9 billion in unrealized capital gains on investments (not included in net income), and $0.3 billion in net additional capital provided to insurers. The deductions from surplus consisted of $34.7 billion in dividends to shareholders and $8.2 billion in miscellaneous charges against surplus.

The $105.7 billion increase in surplus for 2019 followed immediately after the $39.5 billion drop in surplus in fourth-quarter 2018. Both events were driven by a significant downturn in the stock market at the end of 2018 and the subsequent recovery in 2019. With insurers' investments in publicly traded common stocks mostly valued according to their market price, stock market ups and down usually generate unrealized capital gains and losses for the industry, respectively. The $86.9 billion in unrealized capital gains in 2019 more than fully offset the $45.7 billion in unrealized capital losses in fourth-quarter 2018.

Unrealized capital gains rose to $86.9 billion in 2019 from $41.0 billion in unrealized capital losses a year earlier. The net $0.3 billion of additional capital provided to insurers in 2019 compares with $8.5 billion provided in 2018. Dividends to shareholders increased $3.1 billion, or 9.7%, to $34.7 billion in 2019 from $31.6 billion in 2018. Miscellaneous charges against surplus increased to $8.2 billion in 2019 from $4.1 billion in 2018.

As of December 31, 2019, the premium-to-surplus ratio (using 12-month trailing premiums) decreased to 0.75 from 0.82 as of December 31, 2018. At the same time, the ratio of loss and loss adjustment expense reserves to surplus decreased to 0.77 as of December 31, 2019, from 0.85 a year earlier. The recent variations in ratios are mostly due to the unusual surplus decline in 2018 followed by the growth in 2019. Over time, both ratios have trended down due to surplus growing more rapidly than premiums or reserves. For example, during the ten years ending 2008, the average premium-to-surplus

7. Unrealized capital gains or losses contribute directly to surplus change, but they do not affect net income.
8. Pretax operating income is the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income.

ratio was 1.02 and the LLAE-reserves-to-surplus ratio was 1.18, while the averages for the ten years ending 2018 were 0.77 and 0.92, respectively.

Fourth-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes rose to $13.4 billion in fourth-quarter 2019 from $10.2 billion in fourth-quarter 2018. Property/casualty insurers' annualized rate of return on average surplus rose to 6.4% in fourth-quarter 2019 from 5.4% a year earlier.

The $13.4 billion in net income after taxes for the insurance industry in fourth-quarter 2019 was the net result of $12.4 billion in pre-tax operating income, $3.0 billion in realized capital gains on investments, and $2.0 billion in federal and foreign income taxes.

The industry's $12.4 billion in pretax operating income for fourth-quarter 2019 compares with $10.2 billion in operating income a year earlier. The industry's fourth-quarter 2019 pretax operating gain was the net result of $1.7 billion in net losses on underwriting, $14.0 billion in net investment income, and less than $0.1 billion in miscellaneous other income.

Net underwriting losses shrank to $1.7 billion in fourth-quarter 2019 from $4.9 billion in fourth-quarter 2018.

Net LLAE from catastrophes included in private U.S. insurers' financial results fell to $6.9 billion in fourth-quarter 2019 from $17.3 billion in fourth-quarter 2018. The contribution of catastrophe LLAE to the fourth-quarter combined ratio fell to 4.4 percentage points in 2019 from 11.5 percentage points in 2018.

Fourth-quarter 2019 net underwriting losses amounted to 1.1% of the $158.7 billion in premiums earned during the period, and the fourth-quarter 2018 ratio of net underwriting losses to earned premiums was 3.2%. The industry's combined ratio improved to 102.1% in fourth-quarter 2019 from 104.6% in fourth-quarter 2018. Over the last 30 years, the fourth-quarter combined ratio averaged 105.7% but reached as high as 123.3% in 1992 and as low as 94.9% in 2014.

Net written premiums rose $9.0 billion, or 6.2%, to $152.7 billion in fourth-quarter 2019 from $143.7 billion in fourth-quarter 2018. The overall trend has been for quarterly written premiums to rise, and indeed there have been increases in 38 of the past 39 quarters. The only decline after the Great Recession occurred in first-quarter 2019 and was due to an unusually high comparison base, with premiums in 2018 affected by changes in reinsurance utilization.

Net earned premiums grew 5.0% to $158.7 billion in fourth-quarter 2019 from $151.2 billion in fourth-quarter 2018. LLAE grew 1.0% to $115.1 billion in fourth-quarter 2019 from $113.9 billion in fourth-quarter 2018. Non-catastrophe LLAE increased 12.0% to $108.1 billion from $96.6 billion in fourth-quarter 2018. The reported results for fourth-quarter 2019 were also affected by $0.5 billion in favorable LLAE reserve development, compared with the $1.7 billion of favorable LLAE reserve development in fourth-quarter 2018. Excluding catastrophes and reserve development, fourth-quarter LLAE grew 10.4%, exceeding earned premium growth. The fourth-quarter loss ratio, adjusted to remove catastrophes and reported reserve development, deteriorated to 68.5% in 2019 from 65.2% in 2018.

Net investment income for the industry decreased to $14.0 billion in fourth-quarter 2019 from $14.4 billion in fourth-quarter 2018. Miscellaneous other income fell to below $0.1 billion in fourth-quarter 2019 from $0.6 billion in fourth-quarter 2018.

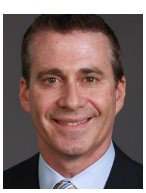
Realized capital gains on investments rose to $3.0 billion in fourth-quarter 2019 from $1.1 billion in fourth-quarter 2018. Combining net investment income and realized capital gains, net investment gains increased to $17.0 billion in fourth-quarter 2019 from $15.5 billion a year earlier.

Insurers posted $36.1 billion in unrealized capital gains on investments in fourth-quarter 2019, an $81.8 billion reversal from $45.7 billion in unrealized capital losses a year earlier. Combining realized and unrealized amounts, the insurance industry posted $39.1 billion in overall capital gains in fourth-quarter 2019, a similar $83.7 billion improvement from the $44.6 billion in overall capital losses on investments in fourth-quarter 2018.

Driven by the strong stock market performance during the fourth quarter of 2019, the $36.1 billion in unrealized capital gains and $39.1 billion in overall capital gains are second only to the fourth-quarter 2017 results, when insurers posted $44.1 billion in unrealized capital gains and $45.7 billion in overall capital gains.

Similarly, the $44.6 billion in overall capital losses in fourth-quarter 2018 was closely related to a stock market downturn. So far, the fourth quarter of 2018 was the worst ever for overall capital losses, but the unprecedented disruptions in the financial markets in first-quarter 2020 are likely to set a new record low. Indeed, based on the daily values, the S&P 500 dropped 14% in fourth-quarter 2018 and dropped 20% in first-quarter 2020.

The key operating results for the industry are summarized in the table on page 5.



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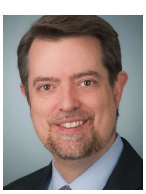

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Operating Results for 2019 and 2018 ($ Millions)

2019	2019	2018
Net Written Premiums	$633,991	$612,187
Percent Change (%)	3.6	10.8
Net Earned Premiums	621,875	593,648
Percent Change (%)	4.8	9.8
Incurred Losses & Loss Adjustment Expenses	442,110	423,924
Percent Change (%)	4.3	3.3
Statutory Underwriting Gains (Losses)	7,496	2,836
Policyholders' Dividends	3,843	3,003
Net Underwriting Gains (Losses)	3,653	(167)
Pretax Operating Income	59,496	56,571
Net Investment Income Earned	54,428	55,301
Net Realized Capital Gains (Losses)	10,441	10,340
Net Investment Gains	64,869	65,641
Net Income (Loss) after Taxes	61,445	59,625
Percent Change (%)	3.1	65.3
Surplus (Consolidated)	847,813	742,079
Loss & Loss Adjustment Expense Reserves	654,158	633,418
Combined Ratio, Post-Dividends (%)	98.9	99.2

Fourth Quarter	2019	2018
Net Written Premiums	$152,705	$143,742
Percent Change (%)	6.2	8.9
Net Earned Premiums	158,686	151,175
Percent Change (%)	5.0	11.4
Incurred Losses & Loss Adjustment Expenses	115,051	113,903
Percent Change (%)	1.0	15.5
Statutory Underwriting Gains (Losses)	585	(3,310)
Policyholders' Dividends	2,288	1,544
Net Underwriting Gains (Losses)	(1,703)	(4,854)
Pretax Operating Income	12,392	10,161
Net Investment Income Earned	14,050	14,441
Net Realized Capital Gains (Losses)	2,984	1,087
Net Investment Gains	17,034	15,528
Net Income (Loss) after Taxes	13,369	10,217
Percent Change (%)	30.8	-25.5
Surplus (Consolidated)	847,813	742,079
Loss & Loss Adjustment Expense Reserves	654,158	633,418
Combined Ratio, Post-Dividends (%)	102.1	104.6

2019: BY THE NUMBERS

$847.8 billion

Industry surplus, a $105.7 billion increase from $742.1 billion at year-end 2018 and a $35.6 billion increase from $812.2 billion as of September 30, 2019

$61.4 billion

Net income after taxes, a 3.1% increase from $59.6 billion for 2018

3.6%

Net written premium growth, after 10.8% in 2018

98.9%

Combined ratio, after 99.2% for 2018

$3.7 billion

Net underwriting gain, after a $0.2 billion net underwriting loss for 2018

3.1%

Investment yield, down from 3.4% in 2018 and down from the 3.2% average for 2014–2018

$97.4 billion

Total capital gains, an all-time high and $128.0 billion swing from $30.7 billion in total capital losses for 2018

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